Manipulations in stock markets

*207.SHRI S.S. AHLUWALIA: Will the PRIME MINISTER be pleased to state:

(a) whether the scale of volatility witnessed in the Indian stock market since early this year is unprecedented;

(b) if not, how Government viewed it;

(c) the steps taken by Government for ensuring prudent conduct of the market player and for detection of market manipulations indicating results yielded, if any, by such steps;

(d) whether despite strong view expressed by Security and Exchange Board of India (SEBI) against lending of stocks by Foreign Financial Institutions to their clients overseas, Foreign Institutional Investors (FIIs) continued to indulge in it; and

(e) if so, the reasons for not banning the same?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL): (a) and (b) The movement in stock market indices is a function of perception of the economy, and / or of a sector or of index stocks. Movements in the stock market also depend on economic factors, domestic and international events, market sentiments, corporate performance and future economic growth. The stock market capitalises the present and future values of growth opportunities while evaluating the growth of all sectors in economy. During the period January 2008 to November 2008 the Sensex volatility ranged from 1.18 per cent to 4.80 per cent and the Nifty volatility ranged between 1.27 per cent and 4.93 per cent. On comparison of volatility ranges of other major indices, it was observed that in the month of October, most world markets including India had a volatility of more than 4.5 per cent. The increase in volatility of the Indian indices is broadly in line with other major global indices which have experienced high volatility in the month of October, 2008.

(c) SEBI has put in place systems and practices to promote a safe, transparent and efficient market and to protect market integrity. The systems instituted include advanced risk management mechanisms comprising on-line monitoring and surveillance, various limits on positions, margin requirements, circuit filters, etc. The systems and practices are reviewed continuously by SEBI and modified to meet emerging needs. Measures taken to broaden and deepen markets include, screen based trading system, dematerialization of securities, corporatization and demutualization of exchanges, settlement through clearing corporation, trading in derivatives, etc. Besides, SEBI maintains a constant vigil in the market and in case of any abnormality, takes appropriate action against the concerned entities. As reported by SEBI, no settlement related defaults / issues have been reported by the Stock Exchanges.

(d) and (e) It was observed by SEBI that the exchange offered stock lending mechanism operational in India was not being used by the institutions including FIIs. At the same time, apparently the FIIs were engaged in similar activities in the overseas OTC markets. It was therefore decided to disapprove the activity of the FIIs which had the effect of lending of shares abroad in an over the counter market, an activity which was not allowed onshore. This disapproval was communicated by SEBI to the FIIs on October 20, 2008. Reportedly, there was just one instance of such activity on the next day of the issuance of the circular. The entity involved was advised by SEBI to reverse the positions which was confirmed to have been done by the entity. Based on subsequent daily reports filed by the FIIs, SEBI has informed that there have been no instances of FIIs engaging in this disapproved activity.